



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MORGAN COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Sid Stewart, County Judge/Executive
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Morgan County, Kentucky, as of June 30, 1998, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Morgan County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Morgan County, Kentucky prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky. Consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when a liability is incurred. The cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of Morgan County, Kentucky, and the related statement of cash receipts, cash disbursements, and changes in cash balances as of and for the year ended June 30, 1998, in conformity with the cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Sid Stewart, County Judge/Executive
Members of the Morgan County Fiscal Court

Our audit was performed for the purpose of forming an opinion on the financial statements of Morgan County, Kentucky, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The other information provided on the accompanying schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present a Schedule of Findings and Questioned Costs, included herein, which discusses the following area of noncompliance:

- The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$149,988 As Collateral To Protect Deposits.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 1999, on our consideration of Morgan County, Kentucky's compliance with certain provisions of laws, regulations, contracts, and grants, and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 26, 1999

MORGAN COUNTY OFFICIALS

Fiscal Year Ended June 30, 1998

Sid Stewart	County Judge/Executive
Steve O'Connor	County Attorney
Janis Williams	County Clerk
Alice Franklin	Circuit Court Clerk
Bill Frank Lacy	Sheriff
Gary Cox	Jailer
Darrel Bradley	Property Valuation Administrator
Tommy Phipps	County Treasurer
Marling Potter	Coroner
Michael Gevedon	Magistrate
Kenneth Coddle	Magistrate
Dale Elam	Magistrate
Darris Smith	Magistrate
Wyck Smith	Magistrate

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

MORGAN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 1998

Assets and Other Resources

Assets

General Fund:

Cash	\$ 228,246
------	------------

Road and Bridge Fund:

Cash	280,547
------	---------

Jail Fund:

Cash	7,046
------	-------

Local Government Economic Assistance Fund:

Cash	67,696
------	--------

Federal Grants Fund:

Cash	5,000
------	-------

Forestry Fund:

Cash	7
------	---

Accounts Payable Account:

Cash	1,703
------	-------

Payroll Account:

Cash	298
------	-----

Other Resources

Road and Bridge Fund:

Amounts to be Provided in Future Years for Lease Purchase Principal Payments	369,071
--	---------

Public Properties Corporation:

Amount to be Provided in Future Years for Bond Principal Payments	65,500
---	--------

Total Assets and Other Resources

	<u>\$ 1,025,114</u>
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The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND FUND BALANCES ARISING FROM CASH TRANSACTIONS
 June 30, 1998
 (Continued)

Liabilities and Fund Balances

Liabilities

Road and Bridge Fund:

Capital Lease Principal Obligation (Note 5)	\$ 369,071
---	------------

Public Properties Corporation:

Bond Principal Not Matured (Note 4)	65,500
-------------------------------------	--------

Accounts Payable Account	1,703
--------------------------	-------

Payroll Account	298
-----------------	-----

Fund Balances

Reserved:

Federal Grants Fund	5,000
---------------------	-------

Forestry Fund	7
---------------	---

Unreserved:

General Fund	228,246
--------------	---------

Road and Bridge Fund	280,547
----------------------	---------

Jail Fund	7,046
-----------	-------

Local Government Economic Assistance Fund	67,696
---	--------

Total Liabilities and Fund Balances	<u>\$ 1,025,114</u>
-------------------------------------	---------------------

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MORGAN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 1998

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,473,428	\$ 1,082,867	\$ 1,234,131	\$ 49,515
Transfers In	151,610	81,610		70,000
Kentucky Advance Revenue Program	1,316,640	587,610	729,030	
Total Cash Receipts	<u>\$ 3,941,678</u>	<u>\$ 1,752,087</u>	<u>\$ 1,963,161</u>	<u>\$ 119,515</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,193,636	\$ 971,844	\$ 1,053,554	\$ 115,148
Transfers Out	151,610	50,000	81,610	
Lease Purchase Obligation				
Principal Paid	69,795		69,795	
Borrowed Money Repaid	1,100	1,100		
Kentucky Advance Revenue Program Repaid	1,316,640	587,610	729,030	
Total Cash Disbursements	<u>\$ 3,732,781</u>	<u>\$ 1,610,554</u>	<u>\$ 1,933,989</u>	<u>\$ 115,148</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 208,897	\$ 141,533	\$ 29,172	\$ 4,367
Cash Balance - July 1, 1997	379,645	86,713	251,375	2,679
Cash Balance - June 30, 1998	<u>\$ 588,542</u>	<u>\$ 228,246</u>	<u>\$ 280,547</u>	<u>\$ 7,046</u>

The accompanying notes are an integral part of the financial statements.

MORGAN COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 1998
 (Continued)

Local Government Economic Assistance Fund	Federal Grant Fund	Forestry Fund
\$ 48,950	\$ 54,752	\$ 3,213
<u>\$ 48,950</u>	<u>\$ 54,752</u>	<u>\$ 3,213</u>
\$ 20,000	\$ 49,752	\$ 3,338
<u>\$ 20,000</u>	<u>\$ 49,752</u>	<u>\$ 3,338</u>
\$ 28,950 38,746	\$ 5,000 0	\$ (125) 132
<u>\$ 67,696</u>	<u>\$ 5,000</u>	<u>\$ 7</u>

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Morgan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation as part of the reporting entity.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts.

C. Basis of Accounting

The financial statements were prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Consequently, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when a liability is incurred. The cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

D. Legal Compliance - Budget

The Morgan County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

MORGAN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 1998
 (Continued)

Note 1. (Continued)

E. Cash and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Morgan County Fiscal Court: Ambulance Service, Water District, Library District, and Extension District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of July 11, 1997, the uncollateralized amount on deposit was \$149,988. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of July 11, 1997.

	<u>Amount</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 652,010
Uncollateralized and uninsured	<u>149,988</u>
Total	<u><u>\$ 801,998</u></u>

Note 4. Public Properties Corporation

On January 6, 1991, the Morgan County Public Properties Corporation entered into an agreement with the Morgan County Department of Health to construct and equip a medical services building. The Public Properties Board contribution of \$75,000 was provided through the issuance of its First Mortgage Revenue Bonds in amount of \$75,000 to be purchased by the United States Department of Agriculture, Farmer's Home Administration. They will pay twenty-eight annual installments of varying amounts in accordance with a bond amortization schedule to complete the agreement plus 6 percent interest on outstanding balance. At June 30, 1998, the outstanding principal balance was \$65,500.

<u>Due Date</u>	<u>Scheduled Principal</u>
January 1, 1999	\$ 1,500
January 1, 2000	1,500
January 1, 2001	2,000
January 1, 2002	2,000
January 1, 2003	2,000
2004-2019	<u>56,500</u>
Totals	<u><u>\$ 65,500</u></u>

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 5. Lease-Purchase Agreements

Liabilities of the Road and Bridge Fund are:

The county entered into a lease-purchase agreement on November 12, 1990, with the Kentucky Association of Counties Leasing Trust for improvements on certain designated county roads. The original principal was \$689,500. The interest rate is 6.15 percent (variable) and termination date is December 1, 2002. The interest rate, charged for the fiscal year 1997-1998 was 4.25 percent. The county will pay 144 monthly installments of varying amounts in accordance with a schedule to complete the contract. The principal outstanding as of June 30, 1998, is \$314,071. Principal payments due in fiscal year end June 30, 1999, are \$63,850.

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Balance Due At Fiscal Year End</u>
1998-1999	\$ 63,850	\$ 250,221
1999-2000	67,890	182,331
2000-2001	72,184	110,147
2001-2002	76,751	33,396
2002-2003	33,396	0

The county entered into a lease-purchase agreement on April 21, 1995, with the Kentucky Association of Counties Leasing Trust for financing the purchase of trucks. The original principal was \$83,000. The interest rate is 5.42 percent and termination date is February 1, 2003. The principal outstanding as of June 30, 1998, is \$55,000. Principal payments due in fiscal year end June 30, 1999 are \$10,000.

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Balance Due At Fiscal Year End</u>
1998-1999	\$ 10,000	\$ 45,000
1999-2000	10,000	35,000
2000-2001	11,000	24,000
2001-2002	12,000	12,000
2002-2003	12,000	0

Note 6. Operating Lease

The county entered into an operating lease agreement on October 14, 1997, with KADD for the purpose of financing a rescue truck and Sheriff's cruiser. The original principal was \$12,000. The interest rate is 5.50 percent and termination date is November 20, 2002. The principal outstanding as of June 30, 1998 is \$11,587.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 1998
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 1998, Morgan County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Conflicts of Interest

Sid Stewart, Morgan County Judge/Executive, is the chairman of the Morgan County Department of Health and the President of the Morgan County, Kentucky Public Properties Corporation. The Public Properties Corporation, which has been established as an agency and instrumentality of the County of Morgan, Kentucky leases to the Morgan County Department of Health, a medical services building and related facilities and equipment (Note 4).

Tommy Phipps, the Morgan County Treasurer, also serves as Treasurer for the Morgan County Ambulance Service, a sub-recipient of State Grant Funds. Mr. Phipps is also Vice President and co-owner of the depository where the county's cash and investments are held.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MORGAN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 1998

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
General Fund	\$ 1,281,231	\$ 1,082,867	\$ (198,364)
Road and Bridge Fund	1,980,524	1,234,131	(746,393)
Jail Fund	135,000	49,515	(85,485)
Local Government Economic Assistance Fund	29,396	48,950	19,554
Federal Grants Fund	69,752	54,752	(15,000)
Forestry Fund	3,345	3,213	(132)
Totals	<u>\$ 3,499,248</u>	<u>\$ 2,473,428</u>	<u>\$ (1,025,820)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,499,248
Add: Budgeted Prior Year Surplus			<u>195,500</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,694,748</u>

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SCHEDULE OF OPERATING REVENUE

MORGAN COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 1998

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Revenue From Local Taxes</u> <u>and Excess Fees</u>				
Sheriff:				
Taxes	\$ 100,685	\$ 97,517	\$	\$
Unmined Coal Taxes	65	65		
County Clerk:				
Deed Transfer Tax	8,099	8,099		
Delinquent Taxes	4,420	4,420		
Excess Fees - 1997	50,305	50,305		
Franchise Taxes	2,906	2,906		
Insurance Premium Taxes	145,477	145,477		
Tangible Personal Property Taxes:				
County Clerk	36,567	36,567		
Bank Franchise Taxes	17,998	17,998		
In Lieu of Taxes	11,738	11,738		
Totals	<u>\$ 378,260</u>	<u>\$ 375,092</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Federal Receipts - State Treasurer</u>				
Disaster and Emergency Assistance				
Grants - Coordinator Salary	\$ 1,500	\$ 1,500	\$	\$
Community Development Block				
Grants - Community Center	5,000			
Blairs Mill Water Line	49,752			
Kentucky Housing Corporation Grant	363,881	363,881		
Abandoned Land Reclamation				
Program	42,820	32,814	10,006	
Rescue Aid Grant	10,000	10,000		
Federal Disaster and Emergency				
Services/Emergency Management				
Agency Reimbursement	33,753		33,753	
National Forestry Receipts	5,003		5,003	
Totals	<u>\$ 511,709</u>	<u>\$ 408,195</u>	<u>\$ 48,762</u>	<u>\$ 0</u>

MORGAN COUNTY
 SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

Local Government Economic Assistance Fund	Federal Grant Fund	Forestry Fund
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\$	\$	\$ 3,168
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\$ 0	\$ 0	\$ 3,168
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\$	\$	\$
	5,000	
	49,752	

\$ 0	\$ 54,752	\$ 0
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MORGAN COUNTY
SCHEDULE OF OPERATING REVENUE
Fiscal Year Ended June 30, 1998
(Continued)

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Kentucky State Treasurer</u>				
Jail:				
Allotments	\$ 24,014	\$	\$	\$ 24,014
Medical Allotments	2,744			2,744
Driving Under The Influence Fees	3,310			3,310
Court Costs, Jail Operation	7,956			7,956
County Road Aid	974,487		974,487	
Truck License Distribution	151,651		151,651	
Recoupment of Jail Costs	10,594			10,594
Strip Mine Permits	1,660	1,660		
Courthouse Rental - Administrative				
Office of the Courts	68,820	68,820		
Refunds:				
Legal Process Tax	75	75		
Drivers Licenses	1,105		1,105	
Dog Licenses	76	76		
Severance Taxes:				
Coal	39,964			
Mineral	7,530			
Board of Assessments	400	400		
Grants:				
Rescue Squad	30,000	30,000		
Transportation	7,400		7,400	
Totals	\$ 1,331,786	\$ 101,031	\$ 1,134,643	\$ 48,618

MORGAN COUNTY
 SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

Local Government Economic Assistance Fund	Federal Grant Fund	Forestry Fund
<u> </u>	<u> </u>	<u> </u>

\$	\$	\$
----	----	----

39,964
 7,530

<u> </u>	<u> </u>	<u> </u>
\$ 47,494	\$ 0	\$ 0

MORGAN COUNTY
 SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Miscellaneous Revenue</u>				
Interest	\$ 54,402	\$ 20,726	\$ 32,014	\$ 161
Reimbursements:				
Insurance Reimbursement	5,828	5,828		
Arts and Recreation Salary	13,564	13,564		
Sheriff Department	78,275	78,275		
Solid Waste Fees	28,911	28,911		
Post Office Rental	660	660		
Insurance Claim	2,670		2,670	
Telephone Commissions	49,651	49,651		
Surplus Machinery/Equipment Sales	14,920		14,920	
Miscellaneous Items	2,792	934	1,122	736
Totals	\$ 251,673	\$ 198,549	\$ 50,726	\$ 897
Total Operating Revenue	\$ 2,473,428	\$ 1,082,867	\$ 1,234,131	\$ 49,515

MORGAN COUNTY
SCHEDULE OF OPERATING REVENUE
 Fiscal Year Ended June 30, 1998
 (Continued)

Local Government Economic Assistance Fund	Federal Grant Fund	Forestry Fund
\$ 1,456	\$	\$ 45
\$ 1,456	\$ 0	\$ 45
\$ 48,950	\$ 54,752	\$ 3,213

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MORGAN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 1998

	Final <u>Budget</u>	Budgeted <u>Expenditures</u>	Under (Over) <u>Budget</u>
<u>GENERAL FUND</u>			
<u>General Government</u>			
Office of County Judge/Executive:			
Salaries-			
County Judge/Executive	\$ 48,500	\$ 48,313	\$ 187
Secretaries	12,480	12,480	
Memberships	900	660	240
Conferences and Training	400	180	220
Office of County Attorney:			
Salaries-			
County Attorney	6,000	6,000	
Secretaries	2,000	2,000	
Office Materials and Supplies	11,220	11,220	
Office of County Clerk:			
County Clerk Salary	3,000	3,000	
Tax Bill Preparation	4,426	4,426	
Office of Sheriff:			
Deputies Salaries	95,821	95,821	
Bond	1,400		1,400
Equipment	3,598	3,598	
Sheriff's Settlement	783	783	
Office of County Coroner:			
County Coroner Salary	6,600	6,600	
Bond	110	102	8
Travel	1,000	895	105
Fiscal Court:			
Magistrates-			
Salaries	36,000	36,000	
Data Processing	2,000	509	1,491
Legal Advertising	2,600	2,110	490
Office Materials and Supplies	3,500	2,780	720

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>General Government (Continued)</u>			
Fiscal Court: (Continued)			
ADD District Payments	\$ 2,184	\$ 2,184	\$
Bonds	1,500	418	1,082
Memberships	3,920	3,920	
Postage	1,000	763	237
Travel	1,500	183	1,317
Office of Property Valuation Administrator:			
Statutory Contribution	9,700	9,242	458
Office of Board of Assessment Appeals:			
Per Diem	1,200	800	400
Office of County Treasurer:			
County Treasurer Salary	15,000	15,000	
Bond	700	665	35
County Law Library:			
Law Librarian Salary	600	600	
Elections:			
Per Diem-			
Election Commissioners	2,000	1,360	640
Election Officers	7,000	3,501	3,499
Materials and Supplies	1,000		1,000
Printing and Advertising	11,500	862	10,638
Polling Place Rental	1,500	480	1,020
Voting Machine Rental	4,000	3,850	150
Courthouse:			
Janitor Salary	11,600	11,440	160
Elevator Maintenance	1,782	1,782	
Insurance	2,000	2,000	
Improvements or New Construction	2,500	947	1,553
Materials and Supplies	6,768	2,452	4,316
Utilities	13,200	13,160	40

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>GENERAL FUND (Continued)</u>			
<u>General Government (Continued)</u>			
Other County Properties:			
Janitor Salaries	\$ 7,400	\$ 7,019	\$ 381
Elevator Maintenance	1,500	437	1,063
Janitorial Services	2,500	629	1,871
Materials and Supplies	1,000	240	760
Insurance	2,000	2,000	
Telephone	1,000	416	584
Utilities	19,000	18,529	471
Improvements or New Construction	7,125	6,062	1,063
<u>Protection to Persons and Property</u>			
County Fire Department:			
Contributions	5,665	5,665	
Disaster and Emergency Services:			
Director Salary	3,590	3,586	4
Rescue Truck	22,116	22,116	
Emergency Materials and Supplies	500	375	125
Office Materials and Supplies	1,500	1,125	375
Ambulance Service:			
Grant	20,000		20,000
E-911 Services:			
Materials and Supplies	120,000		120,000
Office of Public Defender:			
Contribution	1,500	1,456	44
<u>General Health and Sanitation</u>			
Dog Control:			
Salaries	5,000	5,000	
Supplies	2,626	2,626	
Travel	500		500

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>GENERAL FUND (Continued)</u>			
<u>General Health and Sanitation (Continued)</u>			
Solid Waste Collection:			
Contracted Services	\$ 29,997	\$ 29,997	\$
<u>Social Services</u>			
Service to Indigents:			
Contribution	400	352	48
Cemeteries and Memorials:			
Pauper Burials	500	250	250
Other Social Service Programs			
JOBS Program	500	500	
Housing Rehabilitation Grant	525,000	363,909	161,091
<u>Recreation and Culture</u>			
Parks:			
Cannel City Park Contribution	660	660	
Community Center:			
Director Salary	12,700	12,200	500
<u>Debt Service</u>			
KADD Money:			
Interest	1,000	413	587
KARP Money:			
Interest	12,700	12,563	137
Other County Liabilities:			
Lease-Purchase Agreements			
Interest	1,500		1,500

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
<u>GENERAL FUND (Continued)</u>			
<u>Capital Projects</u>			
Water Project:			
Abandoned Mine Land Grant	\$ 47,700	\$ 47,694	\$ 6
<u>Administration</u>			
Contingent Appropriations:			
Reserve for Transfers	44,564		44,564
General Services:			
Audit Fees	14,100	14,033	67
KACO Insurance	4,300	4,300	
Fringe Benefits:			
County Contributions-			
Social Security	29,000	28,282	718
Retirement	31,746	31,746	
Health Insurance	34,000	29,771	4,229
Worker's Compensation	6,600	4,807	1,793
Unemployment Insurance	5,250		5,250
Total Operating Budget	\$ 1,371,231	\$ 971,844	\$ 399,387
Other Financing Uses:			
Lease Purchase Obligation-			
Principal	2,100		2,100
KADD Money-			
Principal	2,500	1,100	1,400
Kentucky Advance Revenue Program-			
Principal	587,610	587,610	
Total General Fund	\$ 1,963,441	\$ 1,560,554	\$ 402,887

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>ROAD AND BRIDGE FUND</u>			
<u>Roads</u>			
Office of Road Supervisor/Engineer:			
Road Supervisor Salary	\$ 17,020	\$ 16,640	\$ 380
Drug Testing	1,000	300	700
Office Supplies	3,000	2,259	741
Road Maintenance:			
Salaries-			
Road Labor	247,000	239,170	7,830
Mechanic	20,000	2,721	17,279
Asphalt	145,000	142,562	2,438
Bridge Materials	95,000	86,273	8,727
Crushed Stone and Gravel	190,000	169,267	20,733
Diesel Fuel	18,000	17,566	434
First Aid	250	110	140
Garage Supplies	2,500	1,734	766
Gravel Storage Shed	3,500	811	2,689
Gasoline	18,000	16,980	1,020
Lubricants	4,000	3,986	14
Machinery and Equipment-			
Repairs	35,000	28,040	6,960
New Road Machinery	37,000	34,450	2,550
Materials	33,000	12,453	20,547
Pipe	26,500	21,812	4,688
Signs	8,100	6,044	2,056
Right of Ways	3,000		3,000
Telephone	5,250	4,509	741
Tires and Tubes	17,000	13,120	3,880
Utilities	4,200	3,160	1,040
<u>Debt Service</u>			
KARP Money:			
Interest	15,700	15,587	113
Notes Payables:			
Principal	100,000		100,000
Interest	1,000		1,000

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>ROAD AND BRIDGE FUND (Continued)</u>			
<u>Debt Service (Continued)</u>			
Other County Liabilities:			
Lease-Purchase Agreements			
Interest	\$ 18,023	\$ 16,733	\$ 1,290
<u>Capital Projects</u>			
Special Projects:			
Contracted Construction			
Materials and Supplies	445,000	94,440	350,560
General Services:			
Audit Fees	3,000		3,000
Insurance	33,000	14,290	18,710
Payments to Government Agencies	5,481	5,003	478
Contingent Appropriations:			
Reserve for Budget Transfers	363,016		363,016
<u>Administration</u>			
Fringe Benefits:			
County Contributions-			
Retirement	39,792	20,752	19,040
Social Security	35,192	17,804	17,388
Health Insurance	40,000	34,150	5,850
Worker's Compensation	30,000	10,828	19,172
Unemployment Insurance	18,000		18,000
Total Operating Budget	\$ 2,080,524	\$ 1,053,554	\$ 1,026,970
Other Financing Uses:			
Lease Purchase Obligation-			
Principal	70,052	69,795	257
Kentucky Advance Revenue Program-			
Principal	729,030	729,030	
Total Road and Bridge Fund	\$ 2,879,606	\$ 1,852,379	\$ 1,027,227

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>JAIL FUND</u>			
<u>Protection to Persons and Property</u>			
Office of Jailer:			
Personnel Services-			
Salaries-			
Jailer	\$ 25,001	\$ 25,000	\$ 1
Jail Personnel	12,850	12,569	281
Administrative Personnel	1,200	130	1,070
Operations-			
Housing Prisoners - Juveniles	9,500	7,116	2,384
Routine Medical	7,500	4,667	2,833
Staff Training	1,806	1,344	462
Telephone	1,500	1,472	28
Vehicle Maintenance	5,850	4,528	1,322
Housing Prisoners - Other Counties	62,790	52,187	10,603
Miscellaneous Operating Expense	1,000	238	762
<u>Administration</u>			
Fringe Benefits:			
County Contributions-			
Retirement	3,623	3,152	471
Social Security	2,880	2,745	135
Total Jail Fund	<u>\$ 135,500</u>	<u>\$ 115,148</u>	<u>\$ 20,352</u>
<u>LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND</u>			
<u>Administration</u>			
General Services:			
Contingent Appropriations:			
Reserve for Budget Transfers	<u>\$ 34,396</u>	<u>\$ 0</u>	<u>\$ 34,396</u>

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

	Final Budget	Budgeted Expenditures	Under (Over) Budget
<u>FEDERAL GRANTS FUND</u>			
<u>Capital Projects</u>			
CDBG Projects:			
Community Center	\$ 20,000	\$	\$ 20,000
Blairs Mill Water	49,752	49,752	
Total Federal Grants Fund	<u>\$ 69,752</u>	<u>\$ 49,752</u>	<u>\$ 20,000</u>
<u>FORESTRY FUND</u>			
<u>Fire Protection</u>			
Kentucky State Treasurer	<u>\$ 3,345</u>	<u>\$ 3,338</u>	<u>\$ 7</u>
Total Operating Budget - All Funds	\$ 3,694,748	\$ 2,193,636	\$ 1,501,112
Other Financing Uses:			
Lease-Purchase Obligation-			
Principal	72,152	69,795	2,357
Borrowed Money-			
Principal	2,500	1,100	1,400
Kentucky Advance Revenue Program-			
Principal	<u>1,316,640</u>	<u>1,316,640</u>	
TOTAL BUDGET - ALL FUNDS	<u>\$ 5,086,040</u>	<u>\$ 3,581,171</u>	<u>\$ 1,504,869</u>

MORGAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 1998
 (Continued)

<u>Final</u>	<u>Budgeted</u>	<u>Under</u>
<u>Budget</u>	<u>Expenditures</u>	<u>(Over)</u>
<u>Budget</u>	<u>Budget</u>	<u>Budget</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Sid Stewart, County Judge/Executive
Members of the Morgan County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An
Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Morgan County, Kentucky, as of and for the year ended June 30, 1998, and have issued our report thereon dated May 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Morgan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Sid Stewart, County Judge/Executive
Members of the Morgan County Fiscal Court
Report On Compliance And On Internal Control Over Financial Reporting Based
On An Audit Of Financial Statements Performed In Accordance With Government
Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 26, 1999

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Sid Stewart, County Judge/Executive
Members of the Morgan County Fiscal Court

Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Morgan County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1998. Morgan County's major federal program is identified in the Schedule of Findings and Questioned Cost. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Morgan County's management. Our responsibility is to express an opinion on Morgan County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morgan County's compliance with those requirements.

In our opinion, Morgan County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1998. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Morgan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Morgan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Honorable Sid Stewart, County Judge/Executive
Members of the Morgan County Fiscal Court
Report On Compliance With Requirements Applicable To Each Major Program
And Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed –
May 26, 1999

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MORGAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 1998

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Morgan County.
2. The reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Morgan County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal award programs for Morgan County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Morgan County reported in Part C of this Schedule.
7. The programs tested as major programs included: Kentucky Housing Corporation HOME Funding Agreement CDFA #14.239.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Morgan County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None

NONCOMPLIANCES

The County Should Have Required Depository Institutions To Pledge Additional Securities Of \$149,988 As Collateral To Protect Deposits

The county's deposits were not adequately secured by \$149,988 as of July 11, 1997. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. We recommend that the county require depository institutions to pledge sufficient securities as collateral to protect deposits at all times.

Management's Response:

Bank checks deposit balance against pledges at period end only and not at interim periods.

PRIOR YEAR FINDINGS

The County should have required depository institutions to pledge additional securities as collateral to protect deposits.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM
 AUDIT

None

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MORGAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 1998

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>Cash Programs</u>		
<u>U.S. Department of Housing and Urban Development</u>		
Kentucky Housing Corporation: HOME Funding Agreement (CFDA #14.239)	M96-SG210171-00	\$ 363,881
Passed-Through State Department of Local Government: Community Development Block Grants- Blairs Mill Waterline Project (CFDA #14.228)	B-94-DC-21-0001(016)	49,752
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources: Abandoned Mine Land Reclamation Programs- (CFDA #15.252)	12-34-600-FMAO-E415-03	32,814
<u>U.S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary- (CFDA #83.503)	Not Available	1,500
Snow Removal- (CFDA #83.516)	175-00000	14,230
Total Cash Expenditures of Federal Awards		<u>\$ 462,177</u>

See notes to the Schedule of Expenditures of Federal Awards.

MORGAN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 1998

Note 1 - Basis of Presentation

This schedule is presented on a cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for Kentucky Housing Corporation HOME Funding Agreement consist of no grants to subrecipients.

CERTIFICATION OF COMPLIANCE – LOCAL
GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MORGAN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 1998

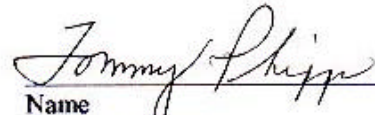
Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MORGAN COUNTY FISCAL COURT

The Morgan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

_____

Name
County Judge/Executive

_____

Name
County Treasurer